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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X
PEGASUS INTEGRATED CONSULTING, CORP.,

Plaintiff,

-against-

RUE 21, INC.

Defendant.
-----X

Case No. 07 CV 3245 (WHP)

[N.Y. Sup. Ct. N.Y. County
Index No. 07/601111]

REPLY AFFIDAVIT OF KIM REYNOLDS

STATE OF PENNSYLVANIA)
) SS:
COUNTY OF ALLEGHENY)

Kim Reynolds, being duly sworn, hereby deposes and says:

1. I am Senior Vice-President and General Merchandise Manager of defendant rue21, Inc (“rue21”). I have held that position since July 2001. I make this affidavit on behalf of rue21 and in further support of Defendant rue21’s Motion to Dismiss or Transfer (the “Motion”), filed May 30, 2007.

2. I have personal knowledge of the facts set forth below except those facts that are set forth on information and belief and the basis for my belief is my review of the records prepared during the ordinary course of business by my colleagues. I am prepared to testify on any of the matters set forth below if called as a witness in this matter.

3. rue21 is a clothing retailer that purchases goods from various vendors for resale to consumers. rue21 currently owns and operates over 300 retail clothing stores and has transacted with hundreds of different vendors pursuant to this standard form of Purchase Order. I deal with rue21's Vendors on an ongoing basis.

4. rue21 purchases goods from various vendors for resale to consumers, virtually always pursuant to a standard form of purchase order (the "Purchase Order"), a blank example of which is attached as Exhibit A to the Affidavit of Keith McDonough filed in the above-captioned action on May 30, 2007 ("McDonough Affidavit"). The face of the purchase order, conspicuously, in all capital letters and in bold print, specifies that the Terms and Conditions on the face and reverse side of the Purchase Order ("Terms and Conditions") and the Vendor Compliance Manual are part of the Purchase Order.

5. rue21's current Vendor Compliance Manual is attached as Exhibit B to the McDonough Affidavit. As shown therein, a copy of both sides of the Purchase Order also is included as part of the Vendor Compliance Manual, at pages D-1 and D-2.

6. The above-captioned case involves rue21's Purchase Orders with two Vendors, Hung Tat Industrial Development Co. ("Hung Tat") and Khaotik, Inc. ("Khaotik").

7. Upon information and belief, Hung Tat was a new Vendor for rue21 in approximately the end of January 2006. However, rue21, and I personally, had dealt with Frank Chih, a representative of Hung Tat, for many years with respect to other entities Mr. Chih represented.

8. rue21's form Purchase Order is in triplicate. The top copy, which is white, and the second copy, which is yellow, are for internal use by rue21. The third copy is pink and is the Vendor copy. The pink Vendor copy is distinct because the form "blacks out" certain columns regarding rue21's planned retail price and the "flow date" as to when rue21 plans to ship the goods from its central warehouse to its retail stores.

9. In my dealings with Mr. Chih over the years, on many occasions we have written orders together in person and I have given him the two-sided pink copy of the Purchase Orders many times. Other times, the two-sided pink copy of the Purchase Orders has been mailed to Mr. Chih. In addition, at times I would have the top copy of the Purchase Order photocopied for Mr. Chih because it was more legible and in some instances because Mr. Chih needed to have the information that was included in the top copy but blacked out on the pink Vendor copy, such as when the company Mr. Chih represented was "pre-ticketing" the goods.

10. I also had many discussions over the years with Mr. Chih regarding various provisions of the Purchase Order and the Vendor Compliance Manual.

11. Given Mr. Chih's familiarity with the Purchase Order and the Vendor Compliance Manual, which also contained both sides of the Purchase Order, and the fact that the Terms and Conditions on the back of the Purchase Order were referenced on the front of the Purchase Order and did not change from order to order, Mr. Chih may not have been provided with the two-sided

Vendor copy of the Purchase Order on every order, but Mr. Chih received the two-sided Vendor copy of the Purchase Order many times.

12. I have reviewed the Affidavit of Frank Chih filed in this case (“Chih Affidavit”). Among the Purchase Orders identified in the Chih Affidavit are several Purchase Orders to Khaotik, Inc. (“Khaotik”) that are dated July 19, 2006 (the “July 19, 2006 Khaotik Purchase Orders”). The July 19, 2006 Khaotik Purchase Orders were written in an in-person meeting at the rue21 offices in which Khaotik was represented by Frank Chih, Carlos Gomez, Efren Lopez and Janie Amoia. I participated in this meeting on behalf of rue21 along with a buyer, Carrie Rizzo, and intermittent participation from other members of my staff, as needed. In addition, I asked Mike Dayieb, rue21’s Supervisor of Vendor Relations, to attend a portion of the meeting. Upon information and belief, Khaotik was a new company at that time and I believe that the July 19, 2006 Khaotik Purchase Orders were the first Purchase Orders Khaotik wrote with rue21.

13. I have a specific recollection that Mr. Chih was provided the two-sided pink Vendor copies of at least some and possibly all of the July 19, 2006 Khaotik Purchase Orders at the July 19, 2006 meeting.

14. Also on July 19, 2006, Mr. Chih and I agreed to an adjustment with respect to certain Non-Compliance chargebacks that were due from Hung Tat to rue21 pursuant to the Vendor Compliance Manual with respect to certain Hung Tat Purchase Orders. Attached hereto as Exhibit A is the adjustment form executed by Mr. Chih on behalf of Hung Tat and by me on behalf of rue21 on July 19, 2006.

I declare under penalty of perjury that the foregoing is true and correct.

Kim Reynolds 6.27.07
Kim Reynolds

SWORN TO AND SUBSCRIBED

BEFORE ME THIS 27th DAY

OF June, 2007.

Harry M. Ruben
Notary Public

My Commission Expires:

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Harry M. Ruben, Notary Public
Pine Twp., Allegheny County
My Commission Expires July 13, 2008
Member, Pennsylvania Association Of Notaries

rue21, Inc.

800 Commonwealth Drive Suite 100 * Warrendale, PA 15086 * Phone: 724-776-9780 * Fax: 724-776-4111

Vendor Allowance Form

DATE: 7-19-06

CONTROL #: MDA - 1315

VENDOR: Hung Tat

P.O.#: _____

STYLE #: _____

REASON FOR ALLOWANCE (CIRCLE ONE):

1. STYLE SUB
2. COLOR SUB
3. PAST COMPLETE
4. POOR SIZE BREAKDOWN
5. OVERSHIPPMENT
6. POOR QUALITY
7. POOR SALE - MARKDOWN
8. OTHER - EXPLAIN - adjustment

FLAT ALLOWANCE? Y OR N

ALLOWANCE BY PIECE?

AMOUNT PER PIECE: \$ _____

NUMBER OF PIECES: _____

GRAND TOTAL OF
ALLOWANCE: \$ 90,000.⁰⁰

BUYERS APPROVAL: _____

VP APPROVAL: hm Reynolds 7-19-06

SALES REP APPROVAL: [Signature]

OCTOBER
2006

A/P USE ONLY

INVOICE #: _____

FACTORED? YES: _____ NO

CHECK #: _____

DATE: _____


AMOUNT DEDUCTED: \$ _____

A/P INITIALS: _____

CERTIFICATE OF SERVICE

I, Zoe Feinberg, hereby certify that on the 2nd day of July, 2007, I caused a true and correct copy of the foregoing Affidavit of Kim Reynolds in Support of Defendant rue21, Inc.'s Motion to Dismiss the Complaint, or in the Alternative, to Transfer Venue, to be served by filing with the Court's Electronic Case Filing system and in addition, by first class mail, postage prepaid, addressed to:

Tony C. Chang, Esq.
299 Broadway, Suite 1700
New York, New York 10007



Zoe Feinberg